

Part IV: Appraising Automobile Physical Damage Claims

Auto Physical Damage

While auto physical damage coverage and contractors' equipment coverage are written on distinctly different types of insurance policies, the claim handling process involving these policies is similar. Auto physical damage adjusters and appraisers and contractors' equipment or "heavy-equipment" adjusters and appraisers tend to be a very specialized group. Unlike most property loss claims, in which adjusters create repair estimates, evaluate coverage, and conclude the claim, auto physical damage claims are usually inspected by an appraiser who writes the appraisal or damage estimate and then forwards that information to an adjuster who makes the coverage determination and concludes the loss.

Insurers may have appraisers on staff or may hire independent appraisers to handle damage inspections. Despite the fact that auto physical damage losses require an appraiser and an adjuster, this arrangement proves to be cost-effective for insurers who have a substantial volume of these claims. Auto physical damage appraisers should have specialized knowledge of auto repair. By relieving the appraisers of the responsibility of adjusting the loss, the appraisers can inspect several losses in a day, which is a more efficient use of their time and knowledge.

Role of the Appraiser - A General Guide

Appraisal - Process that determines the value of property, or the extent of damage, usually performed by an impartial expert.

Duties and Responsibilities of the Appraiser

- Prepare a detailed appraisal utilizing knowledgeable and experienced personnel.
- Give proper identification of vehicle including VIN, year, make, model, body style, and list of equipment.
- Describe condition of vehicle.
- List unrelated damage.
- Provide description or picture of point of impact.
- Stipulate accurate time allowances on all items to be repaired or replaced.
- Consider replacement allowances only when parts cannot be economically or properly repaired.
- Consider the use of L.K.Q. parts, where applicable, when a savings can be realized.
- Recommend the use of recycled or after-market parts when applicable.
- Remove overlap on related operations.
- Identify betterment or depreciation when applicable.
- Recommend appearance allowances when applicable.
- Consider plastic and vinyl damage repair where practical.
- Report related towing and storage charges.
- Upon request, show A.C.V. and salvage figures on all vehicles considered to be Borderline or Total Loss.

- Obtain agreement with repairer unless instructed otherwise by customer.
- Reinspect any hidden or additional damage and document as necessary.
- Maintain a quality control program which includes field reviews of appraisers.
- Pursue an ongoing training program involving new design changes and repair procedures.
- Conduct all business in a professional manner.

Relationship to Adjusters – Like adjusters, appraisers play an important role in the accurate settlement of claims. It is the appraisers roll is to estimate the cost or value of the insured item. The majority of appraisers employed by insurance companies and independent adjusting firms are auto damage appraisers. These appraisers inspect damaged vehicles after an accident and estimate the cost of repairs. This information is then relayed to the adjuster, who incorporates the appraisal into the settlement. Auto damage appraisers are valued by insurance companies because they can provide an unbiased judgment of repair costs.

Duties of Insured after a Loss

The insured must promptly notify the insurer of a loss as well as cooperate with the investigation. The insured must take reasonable steps to protect the vehicle from additional damage. Expenses stemming from this protection are reimbursable. The insured must make the damaged vehicle available for inspection before repair or disposal. And the insured must notify the police if the vehicle is stolen.

1. **Proof of Loss** - A formal statement made by the insured to the insurance company regarding a loss. The purpose of the proof of loss is to place before the company sufficient information concerning the loss to enable it to determine its liability under the policy or bond.
2. **Special Requirements / Production of Books & Records / Abandonment** - The insured must fully cooperate with the insurance company by offering testimony or other evidence including the production of books and records. The insured must separate the damaged from the undamaged property. The insured cannot simply abandon the property to the insurance company.

Duties of the Insurer

It is the responsibility of the insurer to provide a thorough investigation of the claim and to keep adequate documentation of the investigation.

1. **Claims Investigation** - This is the duty of the insurance company to perform on behalf of the insured and to also protect the interest of the insurance company. Each insurance policy contains a clause that outlines the duties of the insurance company. This is found in the insuring agreement in most insurance policies. State law requires that the claim be handled "promptly".
2. **Claim File Documentation of Events** - Each company has its own claim procedures and methods of documentation. Records must be kept in such a form to present to an insurance examiner should the occasion arise. Such files must contain all notes and paperwork pertaining to the claim in such detail that those pertinent events and the dates of such events can be reconstructed.

Determining Value and Loss

The burden of proof is the responsibility of the insured to prove the value and cause of loss. Obviously, the role of the adjuster is to verify estimates and determine the value of the damaged vehicle. The adjuster must perform an inspection and appraisal of the vehicle. The insured is required to protect the property from further loss or damage.

Property Losses – Applicable to Auto Physical Damage Losses - There are certain steps taken by the adjuster in the initial process of adjusting a property loss. Some of these are:

- Verify the effective date of the coverage.
- Verify coverage and the proximate cause of loss to determine if coverage applies.
- Verify the insurable interest of the named insured in the property. Did they have an insurable interest at the time of the loss?
- Determine if there are other entities having insurable interest in the property such as a mortgagee, a loss payee, or other insureds.
- Determine if other insurance will apply.
- Determine if the loss was caused by a third party, in case subrogation against that third party can be pursued.
- Verify that the insured has complied with their obligations under the policy such as protecting the property from further loss.
- Assist the insured in mitigating the loss by providing assistance and guidance.
- Are there any special policy provisions that apply?
- Are there special deductibles that apply?
- Is part of the damaged property subject to policy limitations as regards limits or peril coverage?
- Is the property insured in compliance with a coinsurance clause?
- Is the property covered on an actual cash value basis, replacement cost basis or a valued or agreed amount basis?
- Determine the extent of the salvage, if any, and its value.

The burden of proof is the responsibility of the insured to prove the value and cause of loss. Obviously, the role of the adjuster is to verify estimates and determine the value of the damaged vehicle. The adjuster must perform an inspection and appraisal of the vehicle. The insured is required to protect the property from further loss or damage.

Depreciation - Depending on the type of coverage the insured has purchased; some insurance forms allow for depreciation of the damaged property.

Salvage - Unless otherwise agreed to, the salvaged property belongs to the insurance company when the loss is paid.

Claim Settlement Options – The following are claim settlement options for property insurance:

- Repair the property;
- Replace the property with like kind and quality;
- Replace the property with new;
- Fair value for damaged property.

Settlement Releases and Options

The claims adjuster is responsible for knowing the settlement releases and options the insurer offers and understanding the guidelines for their use. Although each insurer's rules are unique, the following are some of the more common options that may be offered:

Full Release Settlement - Results in immediate payment when the claimant signs a release relinquishing his or her right to sue.

Scheduled Payment Release or Open-Ended Release - General damages, as well as special damages incurred to date, are paid immediately. The claim is left "open" for payment of future "specials" such as an additional visit to the physician.

Payment of Physical Damage, Bodily Injury Pending - Is used in a claim where there is both bodily injury and property damage. Because bodily injury claims are typically more complex and take longer to negotiate, the insurer relieves the claimant's financial burden somewhat by agreeing to pay the property damage claim while leaving the bodily injury claim open until it can be negotiated.

No Release or Walk-Away - The bills presented are paid with no attempt to obtain a separate release, although the wording on the draft or check may also serve as a form of release. After a certain amount of time has passed with no further contact with the claimant, the file is considered closed.

Advanced Payment – Relieves the financial burden on the claimant by making certain payments to the claimant even before the claim can be negotiated. Advanced payments are subtracted from the final settlement.

Structured Settlement – This type of payout is generally reserved for large settlements. The claimant receives payment in set installments over a period of time instead of a lump sum. Structured settlements may call for part of the full amount to be paid as a lump sum.

Rehabilitation – Includes provisions for rehabilitative treatment of the claimant.

Draft Authority - Most claims adjusters are given draft authority by the insurers to expedite the payment of claims. The insurer will normally limit the draft authority in terms of the limit that can be paid and the lines of insurance to which it applies. The larger more complicated claims would normally be handled by senior claims management and payment made at that level.

Subrogation Procedures - Property and casualty policies contain a clause called "Transfer of Rights of Recovery Against Others to Us". This provision defines the subrogation rights under the policy when the insurer makes a payment to, or for, any person or organization, the named insured or any other. If payment is made under the policy and there is a right to recover damages from a third party, that right is transferred to the insurer to the extent the payment of the claim has been made. The insurer also attempts to collect the deductible, if any, paid by the insured.

Appraisal of Loss and Selection of Umpire

Auto policies contain an appraisal clause to handle disputes between the insured and the insurer as to the value of a loss to a vehicle. The insured and the insurer each employ their own appraiser. They attempt to agree on the value of the damaged property. If they cannot agree on the value of

the loss, then an umpire is consulted. Each shares in the cost of the umpire. The amount agreed to by any of the two of the three parties is the amount paid on the loss.

Loss Valuation Methods

Standards for Prompt, Fair and Equitable Settlements Applicable to Automobile Insurance -

This section is applicable to claims arising under motor vehicle collision and comprehensive coverage.

Definitions - The following will govern the construction of the terms used in this section:

1. **Agreed Price** means the amount agreed to by the insurer and the insured, or their representatives, as to the reasonable cost to repair damages to the motor vehicle resulting from the loss, without considering any deductible or other deductions.
2. **Designated Representative** means a person designated by the insured to represent him or her in negotiations with the insurer in an attempt to settle the claim. Such designated representative may be a member of the insured's immediate family or any other person named by the insured who may legally act on his or her behalf and who so acts without compensation of any kind.
3. **Substantially Similar Vehicle** means a motor vehicle of the same make, model, year and substantially the same condition, including all major options of the insured vehicle.
4. **Constructive Total Loss:** A constructive total loss is a property damage loss that is treated as a total loss because the cost of repairing the damaged property exceeds the value of the property. In other words, the item insured is not totally destroyed but is so severely damaged that it is not financially worth repairing.

Adjustment of Partial Losses - The following governs the conduct of insurers in the adjustment of partial losses:

1. Insurers must include the insured's deductible, if any, in subrogation demands. Subrogation recoveries will be shared on a proportionate basis with the insured, unless the deductible amount has been otherwise recovered. No deduction for expenses can be made from the deductible recovery unless an outside attorney is retained to collect such recovery. The deduction may then be for only a pro rata share of the allocated loss adjustment expense.
2. If an insurer prepares an estimate of the cost of the motor vehicle repairs, such estimate must be in an amount for which it may be reasonably expected the damage can be satisfactorily repaired. The insurer must give a copy of the estimate to the insured and may furnish to the insured the names of one or more conveniently located repair shops that will perform the repairs for the amount tendered in settlement of the claim.
3. If the insured's motor vehicle is repaired at a repair shop of the insurer's choice, for a sum estimated by the insurer as the reasonable cost to repair the vehicle and the recommended repair shop does not satisfactorily repair the vehicle, the insurer must, at no additional cost to the claimant and within a reasonable period of time, cause the damaged vehicle to be restored to the condition it was in prior to the loss.

4. Deductions for betterment and/or depreciation are permitted only for parts normally subject to repair and replacement during the useful life of the insured motor vehicle. Deductions for betterment and/or depreciation must be limited to an amount equal to the proportion that the expired life of the part to be repaired or replaced bears to the normal useful life of that part. Calculations for betterment, depreciation and normal use must be included in the insurer's claim file.
5. Deductions for previous damage or prior condition of the motor vehicle must be measurable, discernible, itemized and specified as to dollar amount, and such deductions must be detailed in the claim file.
6. If the insurer does not perform its own physical inspection, it is nevertheless bound by all the applicable requirements.

Adjustment of Total Losses - The following section governs the conduct of insurers in the adjustment of total losses:

1. If the insurer elects to make a cash settlement:
 - It must use the most recent publication of an "Official Used Car Guide" approved by the Insurance Commissioner/Department and uniformly and regularly used by the company, as a guide for setting the minimum value of the motor vehicle which is the subject of the claim. Any deviation downward from the guide's retail valuation must be by documentation that gives detailed information about the vehicle's condition, and any deductions must be measurable, discernible, itemized and specified concerning dollar amount, and they must be appropriate in amount;
 - If the retail value of the specific motor vehicle is not published in the most recent publication of an "Official Used Car Guide" approved by the Commissioner/Insurance Department and which is used uniformly and regularly by the Company, the company must secure dealer quotations on the retail value of similar vehicles and base the settlement upon them. The offer must enable the insured to purchase a substantially similar vehicle for the case settlement and any deviation from this practice must be supported by documentation giving particular information about the motor vehicle's condition. The source of the dealer quotations must be maintained in the claim file;
 - The company must provide a reasonable written explanation to the concerned parties when case settlement offers, as set forth above are made. The explanation must specify the dollar amount of the base figure and identify the actual source. Any additions or subtractions from the base dollar figure must be identified and explained; and
 - In addition to any cash settlement value agreed to by the claimant, there must be added an amount equal to the state applicable sales tax of such cash settlement value, as reimbursement to the claimant for the excise tax imposed by the state.
2. If the insurer elects to replace the vehicle, the replacement vehicle must be immediately available, substantially similar vehicle that is both furnished and paid for by the insurer, subject to the deductible, if any.
3. If the insured vehicle is a private passenger automobile of the current model year, meaning that it has not been superseded in the marketplace by an officially introduced succeeding model, the insurer must utilize one of the following methods in the settlement of the loss, except where the method used would be detrimental to the interests of the insured as compared with utilization of the methods described above:

- The insurer must pay to the insured the reasonable purchase price on the date of loss of a substantially similar vehicle, less any applicable deductible and an allowance for depreciation in accordance with an official used car guide which has been approved by the Commissioner/Insurance Department and is used regularly by the insurer; or
- The insurer must furnish the insured with a substantially similar replacement vehicle, and charge the insured for any applicable deductible and for depreciation in accordance with said official used car guide.

4. If the insurer, in the process of adjusting a total loss, makes a deduction for the salvage value of the insured vehicle, the insurer must furnish the insured with the name and address of a salvage dealer who will purchase the salvage for the amount deducted.

Choice of Repair Shop

When an insured suffers a motor vehicle collision or comprehensive loss, the insurer may not require that repairs be made to the vehicle in a particular place or shop. The insurer may suggest that repairs be made in a particular place or shop when expressly requested by the insured or when the claim involves window glass only.

Automotive Estimates

To evaluate an estimate or damage appraisal, an adjuster should be familiar with the two types of vehicle bodies currently in use, various types of available replacement parts that might affect repair costs, painting procedures that might affect repair costs, and the correct terminology for the various parts of the vehicle.

Vehicle Body Types - There are two types of vehicle body:

- Conventional Full Frame
- Unitized or Unibody Construction

Conventional full frame is found on trucks and some large private passenger autos. It is characterized by a separate steel frame to which the vehicle's body is bolted.

Most passenger vehicles today have **unitized or unibody construction**. The body is made by welding sheet metal panels together. The unibody design has "crush zones" located within its structure. These crush zones include slots, holes, dimples and other dents built into the unibody designed to absorb energy from an impact. As a result of an impact, the sheet metal that forms the unibody distorts, causing a misalignment of the unibody. Unibody construction anticipates the need for structural realignment by having control points designated with the unibody. A control point is a hole, bolt, or location that is used as the measure of the structural misalignment. The misaligned control points are realigned by using various types of pulling equipment.

Replacement Parts

Various kinds of replacement parts are available to repair a vehicle. The personal auto and commercial auto policy uses the phrase "like kind and quality" and "betterment" in the limit of liability provision. These terms become important because of the various types of parts available. An original equipment manufacturer (OEM) part is a new part made by the vehicle manufacturer. An after-market (AM) part is a new part made by someone other than the vehicle manufacturer. An

after-market part may be certified by the Certified Automotive Parts Association, a nonprofit insurer-sponsored group. A remanufactured (reman) part is a used part that has been reconditioned. A like kind and quality (LKQ) part is a usable part found at a salvage yard.

When reviewing an estimate, the adjuster must understand the parts distinctions. Obviously, each of these types of parts has different costs. The insured would also be concerned about used parts' safety and reliability. Many states have laws requiring the disclosure of the use of after-market parts in repairs. A few states even require the customer's consent to use such parts. Some insurers offer their insureds the option of endorsing the policy for OEM or after-market parts. Before reviewing an estimate, an adjuster should determine his or her company's policy regarding parts. Policies also might differ among states.

Painting

The repair process also includes painting, which includes cleaning, masking adjacent parts, application of primer and sealer, sanding (possibly a few times), applying the color, blending the color, and then applying a clear top coat. When a large area that encompasses two or more panels of the vehicle is painted, some of these steps are duplicated. For example, each panel might have a charge for masking the adjacent panels. But if two adjacent panels are damaged, then there should be only one masking charge because the two panels would be masked at the same time as a continuous process. This duplicated labor is referred to as "paint overlap" and is deducted from the estimate.

Structural Components

The adjuster should be familiar with a car's components that are frequently damaged in collisions. Very often, the parts of a car combine to make up a unit referred to as an assembly. For example, the bumper is made up of many parts that combine to form the bumper assembly.

Front Outer Components - At the front end of the car, the front bumper assembly includes the impact absorbers, the bumper cover, the license plate bracket, and many smaller pieces. The front end contains a grille and various types of lamps. Often the lamps are referred to as an assembly. The front end's exterior panels are the hood assembly and the left and right fender assembly. The engine is located inside the front end for most, although not all, cars. In addition to the engine, the front end contains the radiator, the fan, the battery (not always), and the air conditioning unit. The wheel components for the front end may differ depending upon whether the vehicle is all-wheel drive, front-wheel drive, or rear-wheel drive. Rear-wheel drive vehicles have a suspension system and a drive axle. The steering system is located in the front end for all of the various types of vehicles.

Side Components - Both the front and rear windshields are considered side components, as is the roof panel. The side door panels, with all of their internal pieces, are also side components.

Rear Components - The rear part of the car contains a bumper assembly similar to the front end and a wheel assembly that usually includes the transmission. The exhaust pipes and muffler are also located in the rear, although the exhaust pipes run all the way back up front to the engine. The gas tank is usually located in the rear of the car. The body panels that make up the rear end include the trunk or deck lid, the liftgate (found only on hatch backs), the rear body panel, and the rear floor pan, which form the area commonly called the trunk. Additionally, the rear has a quarter panel (located behind the door and over the wheel) and both an inner and outer wheelhouse that are the

sheet metal pieces covering the wheel and tire. Note that the rear end does not have fenders. Only the front end does.

Floor Pan - The floor pan is a large sheet metal stamping that often incorporates several smaller welded stampings to form the floor of a vehicle and the position of its external and structural panels. The floor pan is the most important metal part establishing the chassis, body, and thus the car's size. It serves as the foundation of most of the structural and mechanical components of a unibody automobile to which the power train, suspension system, and other parts are attached. The term is also applied to the smaller stamped panels that form the floors inside a vehicle as well as the bottom of the trunk.

Repair or Replace

The appraiser who inspects the damaged vehicle decides whether to repair or replace a damaged part. Generally, a part should be replaced if repairs are not cost-effective or if repairing it will not return the vehicle to the condition it was in before the loss. The appraiser considers the extent of damage, the size of the damaged area, and the appearance. Usually, if the repair cost exceeds 75% of the cost to replace the part, replacement is appropriate.

Damage Estimate

Preparing a vehicle's damage estimate is similar to preparing a building's damage estimate, although the terminology differs somewhat. A vehicle appraiser determines the type, size, and extent of damage. He or she determines how the repairs can best be accomplished, what the parts will cost, and what the labor will cost. The estimator may use a computer-estimating package or may determine prices for parts and labor from estimating guide books. The appraiser can face the same issues as can a building damage estimator: pre-existing damage, disagreement over extent of damage, and disagreement over how to repair the damage.

Terminology

Vehicle damage appraisal has a set of standard terms. Here are some of the frequently used terms.

Remove and Install (R&I) - Used to gain access to other parts. This includes alignment back when reinstalling. Also includes the following:

- Removal of a part or assembly
- May be done for access or part of R&R of another part or assembly
- Installing part or assembly back on vehicle or part
- Aligning part or assembly for proper fit
- An example of R&I is if an undamaged front bumper cover requires removal to replace a damaged fender. Following replacement of the fender, the original bumper cover is installed on the vehicle.
- Another example of R&I is removing a part to refinish it off of the vehicle.



The above illustrates “remove and install.”

Remove and Replace (R&R) - Remove the assembly, put in new parts, and reinstall and align.

Remove and replace includes:

- Removing damaged part from vehicle or an assembly
- Installing a new bolted-on, welded-on part, or assembly
- Transferring any necessary parts from damaged part to new part aligning part on vehicle



The above depicts “remove and replace.”

Overhaul (OH) - To completely disassemble and reassemble an assembly, replacing the damaged parts in the process.

Structural (S) – Indicates the part or parts in question are structural components.

Included operations (IO) - These are separate tasks that are done as a part of a procedure. These could include labor units included in total labor allowance for each task. Examples are:

- Welding operations to install a part
- Installing glass, hardware or trim in a door shell
- Removal of parts being replaced or reinstalled
- Transferring undamaged part to new part assembly



The procedure for replacing a door shell has many “included operations.”

Adjusters should be aware of “included operations” in an estimate or appraisal. An included operation is any labor operation completed in its entirety while another operation is performed. If a fender and side lamp are damaged, the "remove and replace" labor rate for the fender would include time to replace or transfer the side lamp, so there should not be a separate entry for labor to remove and replace the side lamp. The labor to do so would be included in the time needed to remove and replace the fender.

Not-Included Operations (NIC) - Separate tasks which are not included in labor allowance for a procedure but may be required to complete a repair. Common “not-included operations” include:

- Refinishing a part
- Wheel alignments
- Aiming headlamps and fog lamps

Specific procedures may vary between estimating systems



Refinishing parts and aiming headlamps are examples of “not-included operations” of a replacement procedure.

Common Estimating Problems

When reviewing an estimate, the adjuster should check the description column for incomplete labor/parts descriptions or inconsistent descriptions. The adjuster should also check for duplication of smaller parts. Some computer estimating packages fail to guard against this type of duplication. If a computer estimating system is used, the adjuster should know what the entries include. Some systems select parts based on the option package selected, so it is important that the correct option package is entered. The system may use the VIN to select parts, so the adjuster should verify that the VIN is correctly entered.

Direct Repair Programs

To try to control costs and increase customer satisfaction, many insurers have established direct repair programs. A direct repair program (DRP) is usually a network of repair facilities that have met an insurer's criteria for quality work at a cost-effective price. Very often, the DRP shop performs the appraisal and is able to transmit the information to the claim office via computer. The DRP shop may also be able to arrange to have a rental car available for the insured when the damaged vehicle is dropped off.